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DALSA CORPORATION ANNUAL REPORT 2002

# STRENGTH IN NUMBERS



2002 ACHIEVEMENTS

- Record breaking revenue growth
- Strong net earnings despite the difficult world economic conditions
- Diversified our imaging products into new markets with the acquisition of the Professional Imaging division
- Expanded our reach in semiconductor technologies and markets to semiconductor wafer processing for high performance image sensors, MEMS, high voltage and mixed signal CMOS
- Increased market float of common stock

DALSA is an international high performance semiconductor and electronics company that designs, develops, manufactures, and markets digital imaging products and solutions, in addition to providing wafer foundry services. DALSA's core competencies are in specialized integrated circuit and electronics technology, and highly engineered semiconductor wafer processing. Products include image sensor components; electronic digital cameras; and semiconductor wafer foundry services for use in MEMS, power semiconductors, image sensors and mixed signal CMOS chips.

DALSA is a public company listed on the Toronto Stock Exchange under the symbol "DSA". Based in Waterloo, ON, Canada, the company has operations in Bromont, PQ; Colorado Springs, CO; Tucson, AZ; Eindhoven, NL; Munich, Germany and Tokyo, Japan.



REVENUE (\$ MILLIONS)



# 99.5

PERCENT REVENUE GROWTH FROM 2001 TO 2002

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**“OUR VISION IS TO GROW OUR COMPANY PROFITABLY INTO A \$100 MILLION BUSINESS BY 2002”**

Excerpt from the Chairman's Message, DALSA 1997 Annual Report

**“Our new vision is to grow our company profitably  
to \$250 million revenue by the end of 2005”**

Savvas Chamberlain, February 7, 2003



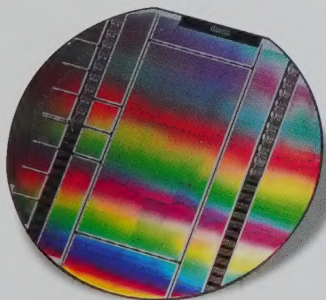




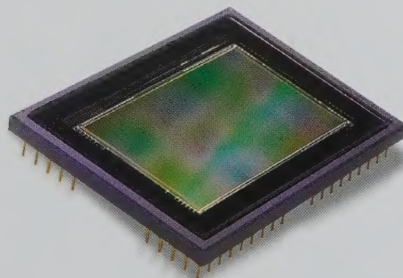
# INTELLECTUAL PROPERTY

We view our strong patent portfolio as a sustainable competitive advantage, as well as a source of growth for the company and a solid basis for our customers to build their plans around. Recently, with the addition of our DALSA Semiconductor division in Bromont and our Professional Imaging group in Eindhoven, we've expanded our portfolio to over 148 patents covering CCD and CMOS wafer design, wafer processing and

electronic digital camera design. Behind our innovations stand scientists and engineers with highly regarded experience and knowledge—some of the most respected technical minds in their fields. Add to that a clear and shared sense of how we compete and succeed, and you've defined DALSA's success in the future.



WAFER



SENSOR



CAMERA





BROMONT = 308

WATERLOO = 238

COLORADO SPRINGS = 27

TUCSON = 30



EINDHOVEN = 63

MUNICH = 4



TOKYO = 7

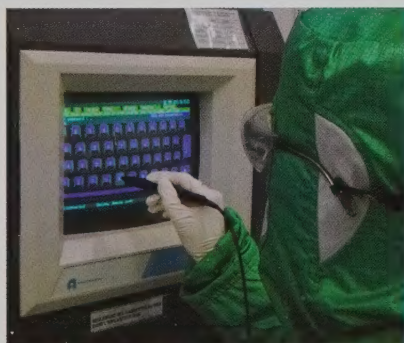


# GLOBAL PRESENCE

For DALSA, becoming a successful international company was no accident. It took a strong vision of where we wanted to be and what we were capable of achieving. Today, with seven locations and 677 employees world-wide, our vision is paying off.

Being a global company has unique advantages. It gives us direct access to a geographically diversified customer base with a greater ability to weather economic volatility. And, by having operations around

the world, DALSA is able to access a larger employee pool ensuring we have the best people in the industry. Just take a look at our Professional Imaging Group. With an established reputation as the world leader in high resolution array image sensors, our scientists and engineers in Eindhoven build on our technology leadership, allowing us to participate in a greater number of growth markets in professional digital photography and medical imaging.



WAFER DESIGN & FABRICATION



IMAGE SENSOR DESIGN & MANUFACTURING



CAMERA DESIGN & MANUFACTURING







# MARKET REACH

We pick our markets carefully, targeting segments that have healthy growth rates and attractive competitive dynamics. Take MEMS (Micro-Electro Mechanical Systems) specialty processing, for example. This is a field that is growing at a healthy 30% per year. Our semiconductor division in Bromont is uniquely positioned to capture this significant opportunity thanks to technological competence and a strong DALSA strategic focus.

In our chosen markets we're successful because we capitalize and build upon the key technologies we've

developed. Our upcoming Digital Cinematography Camera is an excellent example. Designed specifically for cinematographers in the motion picture industry, this is the first camera with the imaging performance (resolution, aspect ratio, dynamic range) to truly be synonymous with film from an artistic and quality standpoint. It has also been engineered with a user interface to ease adoption by traditional film/mechanical camera cinematographers—a key factor that has alluded all of the entrants to this market thus far.



Photo courtesy  
DaimlerChrysler

AUTOMOTIVE

◀ In the automotive sector, MEMS (micro-electro mechanical systems) are changing the way cars are manufactured. MEMS combine micro-circuitry with tiny mechanical devices such as sensors, valves, gears, mirrors, and actuators embedded in silicon chips. They can be found in accelerometers in air-bags, low tire pressure sensors, vehicle stability controls and rollover detection sensors.

The superior image quality delivered by DALSA's professional photography image sensors enables the world's highest performance studio and professional grade SLR digital cameras. Users are among the most discerning of overall image quality, and DALSA's technology delivers. ▶



PROFESSIONAL PHOTOGRAPHY





**BRIAN DOODY** - President, DALSA Digital Imaging

**SAVVAS CHAMBERLAIN** - Chairman and Chief Executive Officer

**RALF BROOKS** - President, DALSA Semiconductor



# STRENGTH IN NUMBERS

To our shareholders, customers, partners  
and employees

In North America the year 2002 will be remembered as the ***annus horribilis of business***. For DALSA I can declare 2002 as the ***annus prosperitas***. Despite the world-wide weak overall economic climate and very uncertain geopolitical atmosphere during the entire last year, DALSA has once again delivered strong performance.

In fact, the most significant milestone in the history of DALSA was achieved in 2002: our company exceeded \$100 million in total revenue. Back in 1996 we completed the year with revenue of \$17.4 million, and the next year, in our 1997 shareholder's annual report, I stated our goal to profitably achieve revenues of \$100 million by the end of 2002. I'm very pleased to report that we successfully achieved and surpassed

this 1997 goal, with revenue of \$112.6 million and net earnings after tax of \$11.5 million. Since DALSA became listed on the Toronto stock exchange in May 1996 our revenue and net earnings compound average growth rates per annum have been 36.5% and 32% respectively.

Despite DALSA's performance, many companies in our field saw their total revenue drop significantly over the past two years; in some cases this was accompanied by significant losses and layoffs. I am frequently asked why DALSA is doing so well relative to its competitors. My answer is quick and simple: we are doing well for two major reasons. We have a world-wide technology leadership in our field, and we now have more than 650 good employees worldwide who continue to contribute significantly to the growth of DALSA. Our Strategy for Growth keeps us focused and we have a strong management team which is motivated and focused on serving our customers and executing our operating plan.



These factors led to an overall revenue growth of 99.5% relative to 2001. Our net earnings of \$11.5 million represents growth of 289% relative to 2001. I am happy to report that we delivered what we promised earlier in the year, as we met our financial guidance provided during the first quarter of 2002 (and positively updated during the release of our third quarter financial results). Our liquidity situation is also healthy. At year-end we had no net debt and an available bank credit facility of \$50 million. The credit for this success goes to our executives, managers and the employees of DALSA, all of whom I'm proud to acknowledge.

In 2002, we continued to capitalize upon our corporate competitive strategy. We offer our technological core competencies as a corporate competitive resource to the market place. The diagram below demonstrates this strategy.

Achieving and surpassing our revenue goal of \$100 million moved DALSA to its next plateau and made our strategy execution even more effective. Our corporation is now more efficient in operations; it has a critical mass in research and development,

manufacturing, sales and marketing, technical customer support, and of course now has a wider spectrum of products for its customers. All this makes us more successful in offering our technology as a competitive resource in the market place.

We have successfully employed this technology driven strategy over the past fifteen years. The technology is the competitive engine of the corporation. We continuously invest in the development of new technology. Our research and development spending goal is 14-16% per annum relative to total sales. The breadth and depth of our R&D capabilities means that DALSA can span the gamut from fundamental research through breakthrough product development. Our R&D capacity and experience allows us to generate these advances internally, as well as effectively assimilate, refine, extend and commercialize technologies that we bring in through acquisitions or partnerships. We target market segments which have healthy growth rates and attractive competitive dynamics. We identify the needs of these markets, and then introduce our technology into new products to meet those needs. Newly identified needs help to push new technology developments, and the cycle continues.

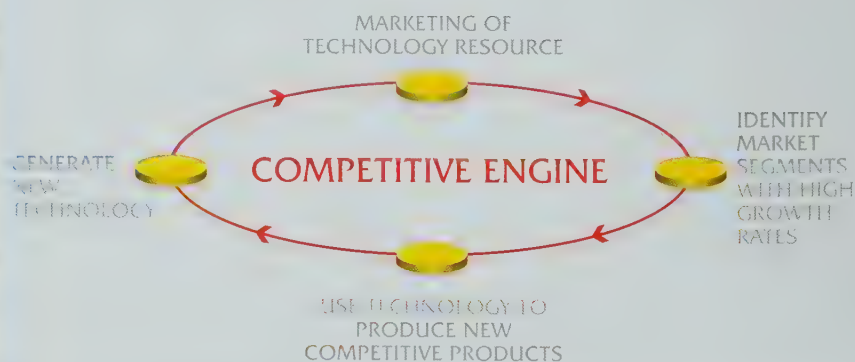
#### MISSION STATEMENT

Building an environment of growth where dedicated people work together.

Creating innovative technology, quality products, and superior imaging solutions.

Succeeding with our customers in new and current markets.

#### DALSA CORPORATE STRATEGY



#### ◀ CORE TECHNOLOGICAL COMPETENCIES...

- CCD & CMOS Image Sensor Chips
- CCD & CMOS Digital Cameras
- Software in Cameras
- X-Ray Digital Cameras
- Advanced Wafer Processes
- Mixed Digital-Analog Electronics
- Wafer Processing for CMOS, CCDs, MEMS and Power Semiconductors



We concentrate on introducing products with high value added but with significant scope for our customers to also add their own value added margin. Because we control our technology, we are able to introduce products which are unique and ahead of the competition. I am proud to tell you that throughout the world in our research laboratories our employees hold 20 Ph.Ds , 44 Masters degrees, and 70 Bachelors degrees. Our laboratories are well equipped, making the environment conducive for our scientists and engineers to innovate and invent new technology.

Last year I talked to you about our Strategy for Growth. This Strategy for Growth and our well defined corporate competitive strategy contributed significantly to our decision early in 2002 to acquire the Semiconductor Division from Zarlink and the Professional Imaging Division from Philips. In both cases we acquired new technology, in addition to the expanded market access and a new customer base. Our ability to develop new wafer processing technology for our CCDs and CMOS image sensor chips adds another powerful component to our corporate competitive resource strategy.

Looking inward to our Digital Imaging division, the year 2002 was certainly a year of positive change and expansion, both organically and through the acquisition of the new DALSA Professional Imaging (DPI) group. DPI allowed the Digital Imaging division to expand to new markets in professional photography, and to expand our existing presence in other markets, such as medical imaging. New high resolution image sensors (11 million and 22 million pixels) were successfully introduced via a strong presence at Photokina, the world's largest photography trade show. The DALSA Life Sciences (DLS) group grew revenues and profits to new highs in 2002, supported by a successful medical products quality certification effort to ISO-13485 for the FPX-2 digital x-ray product. New camera products for the protein crystallography market (for drug research) generated significant production orders for the DLS group, as reported through the year. DALSA's Vision for Machines (VFM) group continued to generate a large share of revenue for the Digital Imaging division, backed by important new product introductions in 2002. Next generation line scan products and industry leading high resolution digital area cameras secured VFM's position as the premier provider of industrial



The indepth knowledge and technical know-how of digital imaging makes our management team in Eindhoven one of the most respected in the high performance digital imaging community.

GLOBAL REVENUE BREAKDOWN





digital imaging products and solutions. The future of the semiconductor inspection market looks bright for VFM, as 2002 also saw multiple design wins for VFM in this key target market.

Looking ahead to 2003 for DALSA's Digital Imaging business, we are encouraged by the opportunities in this marketplace. Key indicators for semiconductor and electronics inspection are strengthening, generating confidence amongst management for our VFM growth targets. The combined technology and operational strengths of the various Digital Imaging groups is expected to give us new opportunities in markets such as medical imaging (in the x-ray and diagnostics field) and digital cinematography. The planned launch of a digital cinematography camera in the spring of 2003 will be an example of how DALSA can create a greater engine for growth than would have been possible with the various imaging groups operating independently. Our success in 2003 and beyond will build upon our long standing and successful strategy of capitalizing upon the many key technologies in our ever-strengthening Digital Imaging division.

Important technology and revenue growth was achieved when we added DALSA's Semiconductor Division in late February 2002 through acquisition. Our first priorities were the disentanglement of operations from the vendor, Zarlink Semiconductor, and the subsequent integration of our new Bromont operations into DALSA Corporation. These goals were successfully completed well ahead of schedule. Despite the focus of resources on the integration, and the challenges of a weak semiconductor market, this division delivered very good profitable results for DALSA in 2002. Like in the rest of DALSA, our Bromont team of employees is a highly motivated management, staff and operations group.

We've incorporated our Semiconductor Division into our technology strategy based upon two principal foundations. One foundation is the semiconductor foundry business, offering CMOS, CCDs and MEMS wafer processing to the world markets. The second foundation is the support of various DALSA product business units through the provision of wafer manufacturing services as well as advanced semiconductor process R&D.



With an average tenure of 14 years and breadth of knowledge across several markets, the management team at DALSA Semiconductor is one of the most experienced in the industry. The deep domain knowledge of the DALSA Semi team is a key part of the division's market-leading capabilities in speciality semiconductor foundry services.

**OUR KEY VALUES:**  
 • Customer focus  
 • Innovation  
 • Quality  
 • Teamwork  
 • Integrity  
 • Flexibility  
 • Accountability  
 • Commitment  
 • Innovation  
 • Teamwork and Technical Excellence



During 2002, we made a one time capital investment of approximately \$13 million to upgrade the Bromont facility to advanced 0.5 micron lithography to accommodate the advanced CCD image sensors products of the Professional Imaging group. The transfer of the various 0.5 micron processes and products to Bromont from Philip's foundry in Europe required a significant effort by both our Semiconductor Division and the Professional Imaging group. I'm pleased to report to you that at the end of 2002 a majority of the monochrome sensors have been transferred and both the technical performance of the final products and the manufacturing measures have exceeded all expectations—and in some cases exceed the best ever attained by Philips! By early 3Q03, we expect the transfer of the remaining monochrome processes as well as all of the color processes and products to be complete.

Also during 2002, significant effort was expended on our foundry business for outside parties, providing CMOS wafer manufacturing services for the Integrated Device Manufacturers (IDM) and Fabless Semiconductor companies around the world. Prior to DALSA's acquisition, the foundry's traditional

dependence was on analog mixed signal CMOS semiconductor processes and hence was subject to the cyclical variations in the semiconductor market and difficult competition from low cost Asian foundries. This was inconsistent with DALSA's technology strategy, so during 2002 significant work was expended in moving towards the development of a *balanced portfolio of specialty semiconductor processes* such as MEMS (Micro-Electro Mechanical Systems), High Voltage, CCD Image Sensor along with analog mixed signal CMOS. As well, efforts were expended to balance the customer application base—especially into the anti-cyclical automotive sector, and to establish a worldwide customer base. During 2003, we will continue our development of specialty semiconductor processes where we can establish unique technology and value-add for our customers. We will have a concentrated long term focus on exploiting our *low temperature specialty processes* and the unique ability to combine these together into *Intelligent MEMS* devices.

Intelligent MEMS are MEMS devices that include CMOS integrated circuitry, such as high voltage actuators, signal conditioning, logic, and memory on



Our diverse manufacturing experience from our global operations coupled with our critical manufacturing capability at DALSA Semiconductor enables us to develop manufacturing processes that are unrivaled in the industry

Our Vision for Machines Division based in Waterloo and Colorado has achieved success by stimulating strategic collaboration between operating sites. Open channels of communication and pan-operating site reporting lines throughout the division help to build on each others strengths, reinforcing the VFM division's leadership in the high performance industrial image capture components business





the same silicon chip and service a broad base of applications around the world.

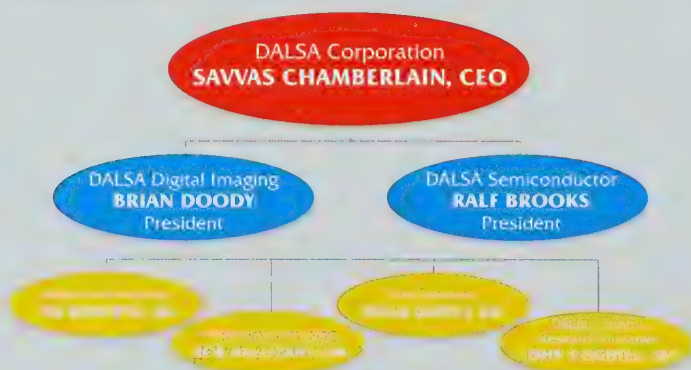
MEMS (Micro-Electro Mechanical Systems) are IC chips that are made using semiconductor technology, featuring mechanical components such as mirrors, membranes or springs. MEMS are commonly employed in the creation of pressure, temperature, chemical and vibration sensors, light reflectors and switches. MEMS applications include accelerometers for airbags, vehicle control, pacemakers and consumer products. MEMS are also found in all-optical telecommunication switches and projection video displays, and RF-MEMS will be found within cell phones in the coming years. We see MEMS specialty processes as a major growth area for DALSA Semiconductor. It is well accepted by world marketers that this field is growing at 30% per annum over the next five years. All these activities and goals are consistent with DALSA's overall competitive strategy and Strategy for Growth.

Moving our corporation forward we will adhere to our core beliefs, we will continue our investment in research and development, and we will strive to

respond to the needs of our customers quicker, bring complete products to the market place faster and cheaper. We have done this successfully in the past, and we will continue to do it in the future. Our products will continue to set the standards in our industry. I am proud that we are able to achieve these results and at the same time, in a small way, we contribute to the betterment of humanity in the society we live through the success of our products.

I will continue to establish DALSA's international presence with operations and sales support locations throughout the world, while maintaining the culture and core of DALSA as one holistic corporation. Our management organization (see diagram below) is working well and lends itself to growth and expansion. Each division, operating as a business unit, receives the financial guidance, management and measurement directly from the Corporate group. The effective high speed data interconnection of all our different geographic locations allows our work teams to work effectively irrespective of their geographic location. These world-wide distributed locations allow us to serve our customers on their time, and provide access to an international pool of qualified scientists

#### MANAGEMENT STRUCTURE



Through innovation and flexibility our Life Sciences team in Tucson has used our technology in an expanding range of applications, helping them make substantial market share gains to grow at a rate much higher than the industry overall.



and engineers around the globe. I am proud to say that our management team, including DALSA's executives, business unit managers, directors and department managers, is made up of enthusiastic, talented individuals who have commitment to DALSA for the long term and believe in the business model of our company (see below).

The established and proven depth within this management team will enable us to grow our company internally and also to successfully integrate future potential acquisitions as the opportunities arise.

In fact, we shall continue to review acquisition opportunities in 2003. The criteria upon which new potential assets are evaluated include the acquisition of new or complimentary technology, access to new market segments, good return on investment, a positive fit with the DALSA culture, and an opportunity to generate accretive earnings per share ideally within a year but not later than two years. Successful acquisitions not only enable us to acquire new technology and new markets but also can provide an opportunity to increase the liquidity of DALSA stock through related equity financing. This approach was

quite successful in 2002 and by carefully monitoring the acquisition prospects and capital market interest, we can apply this successful formula again in 2003 and beyond. Short term financing of future acquisitions is possible through our credit facility currently in place. Follow-on equity financing has the potential to achieve two goals—retire the debt arising from the acquisitions and increase further stock liquidity.

Now, looking forward to the possibilities and potential ahead for DALSA, I will outline my outlook and vision for our company. I am setting a new profitable revenue goal. The new challenge and goal for the DALSA management is to achieve a profitable revenue of \$250 million by the end of 2005. This would further increase the efficiency and utilization of our general and administrative infrastructure, make the company self-contained and robust, increase further the depth in its core competitive technologies, make DALSA more competitive, increase stock liquidity, and finally maintain the corporation's traditional 10 - 12% per annum earnings after tax relative to sales. The latter will give a healthy return on investment for our shareholders. This outlook is also represented pictorially in a diagram on the following page.

#### BUSINESS MODEL: GOAL (Percentage of Revenue)



◀ The Digital Cinema team is tackling new frontiers with the development of their motion picture camera. The team has capitalized on DALSA's resources through the convergence of technologies and capabilities throughout the company to develop this new technology.



Based on the leadership of our technology, the markets we serve and our current competitive position, our new goal is within reach. To achieve our new goal we need to grow over the next three years by at least 30% per annum. This can be achieved through approximately 2/3 internal growth and 1/3 through acquisitions. The markets in which we participate have the combined growth rates to support our plans. Over the next four years, our life sciences market segment has growth rates of 20 to 25% per annum, the MEMS market segment is growing at 30% per annum, our Professional Imaging group is growing at about 20% per annum, the Vision for Machines business is expected to grow at 15% per annum. Further, we expect a significant growth for our products in the semiconductor and electronics market spaces, given our strong position for sales growth once these segments recover. Overall, I am confident that we can continue to grow DALSA on average at 30% per annum.

In closing I would like to thank all the DALSA employees for their continued excellent performance. I also want to acknowledge and thank our customers, our sales representatives and distributors, our

shareholders, and the investment houses and research analysts who supported and continue to support our corporation.

Best Wishes,



Savvas Chamberlain  
CEO and Chair of the Board of Directors  
DALSA Corporation  
January 31, 2003



#### OUTLOOK TO 2005

We attained our 1997 goal of reaching \$100 million in Revenues by 2002 and look forward to achieving our new goal of \$250 million by 2005.

In 2002, DALSA was once again chosen as one of Canada's Top 100 Employers.



[www.CanadasTop100.com](http://www.CanadasTop100.com)



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of the Company's consolidated results of operations and financial condition. This discussion should be read in conjunction with the Consolidated Financial Statements and accompanying notes. Certain statements contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements, including (without limitation) statements concerning possible or assumed future results of operations of the Company preceded by, followed by or that include the words "believes", "expects", "anticipates", "estimates", "intends", "plans", "forecasts" or similar expressions. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions and the Company's actual results may differ materially from those anticipated in these forward-looking statements. These risks and uncertainties are presented later in this discussion.

#### **OVERVIEW**

DALSA is an international high performance semiconductor and electronics company that designs, develops, manufactures, and markets digital imaging products and solutions and semiconductor products and wafer services. DALSA employed approximately 680 people around the world as of December 31, 2002, compared to approximately 300 people as of December 31, 2001. The Company is headquartered in Waterloo, Ontario, Canada, with additional operations in Bromont, Quebec, Canada, Tucson, Arizona, USA, Colorado Springs, Colorado, USA and Eindhoven, The Netherlands. The Company has sales offices in Munich, Germany and Tokyo, Japan. DALSA products are sold worldwide to over 1,300 customers in over 25 countries through an extensive global distribution network.

Fiscal year 2002 was a pivotal year for DALSA. The Company made two strategic acquisitions, purchasing the Semiconductor Wafer Foundry Business (the "Semiconductor Business") in Bromont, Quebec, Canada from Zarlink Semiconductor Inc. on February 22, 2002 and purchasing the CCD Image Sensor Business ("DALSA Professional Imaging") in Eindhoven, The Netherlands from Royal Philips Electronics Inc. ("Philips") on March 29, 2002. With the purchase of the Semiconductor Business, the Company is now in full control of its technology, as it has the ability to manufacture all significant aspects of its technology portfolio. Previously, the Company was at risk of losing its sources of semiconductor wafer suppliers as the semiconductor wafer industry moves to more consolidations and moves away from lower volume products at the foundries such as CCD and CMOS based products. The Company's Semiconductor Business will now supply a significant portion of DALSA's Digital Imaging Products and Solutions ("Digital Imaging") division's wafer requirements. The sales of wafer products from the Semiconductor Business to DALSA's Digital Imaging division did not represent a significant portion of the



Semiconductor Business total revenues in the fiscal year ended December 31, 2002. Looking forward, sales to DALSA's Digital Imaging division will make up a larger portion of the Semiconductor Business revenues as it will be the sole supplier to DALSA Professional Imaging starting in 2003. The Digital Imaging division will also utilize the capabilities of the Semiconductor Business for the design, testing and manufacture of new wafer products, thereby further leveraging the Company's assets.

In order to complete the acquisitions in 2002, as well as to position the Company for future acquisitions by eliminating almost all debt and to improve liquidity of the Company's stock, DALSA completed two successful equity offerings in 2002, which raised net cash proceeds of \$39.0 million. By the close of the year, the Company only had \$2.0 million of total debt, including the current portion, related to an acquisition in a prior year. This debt will be repaid over the next four years and is interest free.

The Company had a successful year in signing numerous significant contracts with large, well known OEMs. These contracts, for the design and manufacture of sensors, cameras and semiconductor wafers, reinforce the industry's view of DALSA as a long-term, secure supplier of technology and quality products. In particular, one of the key customers in the Semiconductor Business, Motorola, Inc., chose the Semiconductor Business in 2002 to supply it with multiple MEMS-based sensors. Motorola has been a long time partner of the Semiconductor Business and has awarded it with numerous awards, such as Foundry of the Year, for quality service and products.

The Company was successful in obtaining an investment in its Digital Cinema initiative from Technology Partnerships Canada. The funds will be used to supplement the Company's own research in the technology and market development for the Digital Cinema industry. The Digital Cinema business unit is currently developing a high performance Digital Camera for image capture of motion pictures on production sets, as well as a Film Digitizer that will convert existing film archives into digital format at very high speed using the company's proven sensor technology.

Historically, the Company's operating results have fluctuated on a quarterly basis and the Company expects that quarterly financial results will continue to fluctuate in the future. Fluctuations in results relate to the timing of standard product sales to OEM customers, which may place large single orders in any one quarter, and to the timing of staffing and infrastructure additions to support growth.



## RESULTS OF OPERATIONS

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

The following table sets forth the percentage of standard product revenue represented by certain items in the Company's consolidated financial statements of the Company for the above noted periods.

In percent	2002	2001
Standard product revenue	<b>100.0%</b>	100.0%
Cost of sales	<b>55.7</b>	50.0
Gross margin	<b>44.3</b>	50.0
Expenses		
Selling, general & administration	<b>20.5</b>	29.6
Research and development, net <sup>(1)</sup>	<b>5.6</b>	6.1
Amortization of intangibles	<b>0.5</b>	1.3
Foreign exchange	<b>(0.2)</b>	(1.1)
Income before under-noted	<b>17.9</b>	14.1
Interest expense (income)	<b>0.5</b>	(0.1)
Earnings before income tax and amortization	<b>17.4</b>	14.2
Income taxes	<b>5.6</b>	5.8
Income before minority interest	<b>11.8</b>	8.4
Minority interest	<b>0.4</b>	—
Net earnings	<b>11.4%</b>	8.4%

Note:

(1) Net research and development costs are comprised of total research and development costs less the aggregate of investment tax credits and Application Specific Contract ("ASC") revenues.

In percent	2002	2001
Research and development costs	<b>20.5%</b>	28.9%
Investment tax credits	<b>(3.0)</b>	(3.1)
Government grants	<b>(0.1)</b>	(0.1)
ASC revenue	<b>(11.8)</b>	(19.6)
Research and development costs, net	<b>5.6%</b>	6.1%



## REVENUES

The Company's revenues, net of inter-segment transactions, are comprised of:

In thousands	2002	2001	Dollar Increase 2002 v. 2001	Percentage Increase 2002 v. 2001
Standard Products, Digital Imaging	\$ 65,901	\$ 47,200	\$ 18,701	39.6%
Standard Products, Semiconductor Business	34,821	—	34,821	100.0
Application Specific Contracts, Digital Imaging	11,845	9,235	2,610	28.3
	<b>\$ 112,567</b>	<b>\$ 56,435</b>	<b>\$ 56,132</b>	<b>99.5%</b>

The Semiconductor division expended significant effort in implementing 0.5 micron process capability in 2002 in order to supply DALSA Professional Imaging with its semiconductor wafer requirements starting in 2003 and to address the general 0.5 micron market. This effort partly detracted from the achievement of higher revenues in 2002 by the Semiconductor Business. The 0.5 micron process capability is expected to be finalized in early 2003, allowing full attention of the engineering support staff to be applied to third party product production. For 2002, sales of prototype and production semiconductor wafers and non-recurring engineering charges to the other DALSA business units totaled \$1.2 million, so that total Semiconductor Business revenues were \$36.0 million for the year.

Both the Digital Imaging business and the Semiconductor Business were affected by the continued economic slowdown in the semiconductor markets, the general world economy and the geopolitical uncertainty throughout the world. However, the Company did experience improvements in the latter part of 2002 and has a stronger forecast for 2003. The Company also saw strength in other markets in 2002, such as in the flat panel display inspection market, postal and parcel sorting and document scanning. The Company continues to experience strong demand for its the x-ray based protein crystallography cameras produced at its Life Sciences division. Further, sales in DALSA Professional Imaging continue to do well and exceeded our expectations for 2002.

The Company had significant increases in total revenues in North America, Europe and the Middle East compared to 2001. The increase in total revenues in North America is primarily due to the additional revenues of the Semiconductor Business and from growth in the Vision for Machines business unit. The increase in total revenues in Europe and the Middle East is largely due to the additional revenues of the DALSA Professional Imaging business unit.



## **GROSS MARGIN**

Gross margin for 2002 was \$44.6 million or 44.3% of standard product revenue, compared to \$23.6 million or 50.0% of standard product revenue in 2001. The 2002 gross margin dollars represent an improvement of \$21.0 million or 89.0% over the results of 2001. The decrease in overall gross margin percentage is primarily due to the inclusion of the Semiconductor Business gross margin, which had margins that were lower than the Company's historical target margins in the Digital Imaging business of 53% to 55%. The Semiconductor Business, due to its capital intensive nature, is expected to yield significantly improved gross margins as sales volume increases. The Company expects that the Semiconductor Business will show significant improvements in sales and gross margins in 2003. Gross margins in the Digital Imaging business are anticipated to remain strong in 2003. The Company expects overall gross margins to remain in the range of 40% to 45% in the coming year.

## **SELLING, GENERAL AND ADMINISTRATIVE EXPENSE**

Selling, general and administrative ("SG&A") expenses were \$20.6 million or 20.5% of standard product sales for 2002, compared to \$14.0 million or 29.6% of standard product sales in 2001. The decrease in SG&A as a percentage of standard product sales is primarily due to the addition of the Semiconductor Business which has a different business model than the Digital Imaging business, requiring lower SG&A expenses as a percentage of standard product sales. The Semiconductor Business traditionally had a small sales and marketing team and had Corporate functions performed at its former head office. The Company's new business model is to place more emphasis on the sales and marketing efforts in the Semiconductor Business and to maintain similar Corporate functions at the head office in Waterloo, Ontario, thereby realizing economies of scale. As well, certain SG&A functions for DALSA Professional Imaging are performed by the Corporate Group in Waterloo, Ontario, resulting in further cost reductions for that operation. The Company maintained its cost containment program in 2002 which resulted in numerous SG&A costs being decreased over 2001.

## **RESEARCH AND DEVELOPMENT**

As a technology company, DALSA is committed to investing in research and development ("R&D") and targets R&D spending to be approximately 14% to 16% of total revenue. The decrease in percentage as compared to prior years is due to the addition of the Semiconductor Business in 2002. The Semiconductor Business model does not require the same level of R&D expenditure as the Digital Imaging business since the Semiconductor Business has primarily focused on wafer process transfer from other wafer foundries which does not require the same level of expenditure as in the other areas of the Company. However, DALSA did spend significant resources in 2002 in developing new wafer processing technologies and in transferring the 0.5 micron wafer process from Philips' wafer foundry in Caen, France to the Semiconductor division. This transfer is on-going and is expected to be completed in the 2003 with the final qualification of equipment already purchased in 2002.



Gross R&D expenses before deducting ITCs and government grants was \$20.7 million, or 20.5% of standard product revenue as compared to \$13.6 million or 28.9% of standard product revenue in 2001. ITCs and government grant funding was \$3.2 million compared to \$1.5 million in 2001.

The Company deferred development costs of \$1.3 million, less deferred income taxes of \$0.4 million recorded in future tax assets on the balance sheet, associated with its Digital Cinema business unit in the current year, consistent with its accounting policy on deferred development costs. The Company also recognized grants received from Technology Partnerships Canada that offset deferred expenses related to the Digital Cinema business unit. Canadian generally accepted accounting principles require that development costs meeting specific criteria be deferred and be expensed in future periods when commercial utilization commences. Digital Cinema is a significant business initiative for the Company. Management anticipates that development costs for the Digital Cinema business unit will continue to be deferred into 2003 while the commercialization phase is completed.

The Company utilizes its ASC revenues as a mechanism to partially fund its research and development activities. In the event that ASC revenue was not available or was significantly reduced, the Company's relative cost of research and development would increase and the Company could be required to consider the postponement or cancellation of certain research and development projects.

## **INTEREST**

The Company had net interest expense for the year of \$0.5 million compared to net interest income of \$0.04 million in 2001. The Company drew on its bank credit facility in order to facilitate the two acquisitions made in 2002, thereby incurring interest charges. The Company generated sufficient cash from operations in addition to two equity offerings in the year to be able to fully pay back all credit advances by December 31, 2002.

## **INCOME TAX**

The Company's effective tax rate in 2002 was 32.1% as compared to 40.6% in 2001. The lower effective tax rate in 2002 is largely due to the continued reduction of Canadian income tax rates, the impact of the lower tax rates at the Semiconductor Business and the lower tax rates applicable to foreign operations.

## **LIQUIDITY AND CAPITAL RESOURCES**

For the year ended December 31, 2002, net cash provided by operating activities was strong at \$15.0 million compared to cash provided by operating activities of \$9.3 million in 2001. Cash applied to operating assets and liabilities resulted primarily from building working capital, such as accounts receivable, in the acquired companies



in 2002 as no working capital other than inventory was acquired. Cash invested in working capital was within the Company's expectations for the year.

The Company spent \$39.0 million on its two acquisitions of 2002 and used the two equity offerings in the year to fund these acquisitions. The Company also received \$5.0 million from the conversion of Purchase Warrants and Compensation Options related to the Special Warrant issue of December 2000.

In 2002, the Company invested significant cash resources in property and equipment additions in 2002, primarily in the Semiconductor Business. For the entire Company, a total of \$24.5 million was invested in property and equipment in 2002 compared to \$2.9 million in 2001. Cash generated from operations and from the Purchase Warrant and Compensation Option conversion noted above was used to fund these purchases.

The Company has a \$20.0 million operating credit facility, a \$3.5 million treasury risk management facility to facilitate hedging of interest and currency related risks arising in the normal course of operations, a \$6.0 million facility to finance capital expenditures and a US\$15.0 million acquisition facility (total of \$53.5 million in facilities). The acquisition facility has a one year term and is extendable annually for an additional year. Under these facilities, the Company is required to maintain certain financial ratios. No amounts were outstanding under the credit facilities as at the year-end.

DALSA believes that cash on hand and cash flow from operating activities will be sufficient to fund currently anticipated working capital, planned capital spending and debt service requirements for the next twelve months. The Company's planned capital spending for 2003 is between \$11.0 million and \$13.0 million. In addition, DALSA regularly reviews acquisition opportunities and may therefore require additional debt or equity financing.

## **BUSINESS RISKS AND PROSPECTS**

The Company anticipates a recovery in the semiconductor and electronics market and the general world economy starting in 2003. There can be no assurance that this recovery will occur in the time anticipated, or to the extent of the recovery when it occurs. The timing and extent of the economic recovery could have a material adverse effect on the Company's business, operations and prospects.

The Company relies on third party suppliers for certain semiconductor wafers, electronic components and other raw materials used in the Company's products. Although the Company seeks to reduce exposure to single source suppliers through inventory maintenance either at DALSA or with suppliers, loss of certain of these suppliers, or the inability of certain of these suppliers to deliver to the Company on a timely basis, could have a material adverse



affect on the Company's business operations and prospects. In particular, the Company has in the past experienced manufacturing delays due to delays in supply of semiconductor wafers or to defective wafers and there can be no assurance that significant manufacturing delays will not occur in the future as the Company has not yet transferred all of its wafer processing requirements to its Semiconductor Business.

The Company's future operating results will depend upon its ability to improve and market existing products and to develop and successfully market new products. There is no assurance that the Company will be able to enhance its existing products or to develop new products in response to customer requirements or product introductions by competitors, which could have a material adverse effect on the Company's business, operations and prospects.

The Company has targeted digital cinema as a new market for its digital image capture technology. Even though the Company has excellent technology, there can be no assurance that this market will develop and, given the Company's limited experience and operating history in this market, that the Company's investment and efforts in this market will be successful. Failure to succeed in the digital cinema market may adversely affect the Company's future business, financial condition and operating results.

As the Company realizes a significant portion of its revenue in United States dollars and incurs expenses in Canadian dollars, increases in the value of the Canadian dollar relative to the United States dollar could adversely affect the Company's operating results. The Company has previously entered into forward exchange agreements in respect of certain transactions to hedge its foreign exchange exposure. The Company will evaluate its foreign exchange exposure and may enter into forward exchange agreements in the future, if appropriate in the circumstances.



## TO OUR SHAREHOLDERS

The accompanying consolidated financial statements are the responsibility of Management and have been approved by the Board of Directors of the Company. Management is responsible for and has prepared and presented the consolidated financial statements in accordance with accounting principles generally accepted in Canada and has made any significant accounting judgements and estimates required. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has developed and maintains systems of internal controls designed to provide reasonable assurance that reliable and relevant financial information is produced. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and ensuring management meets their financial reporting responsibilities.

The Audit Committee consists solely of directors who are not officers of the Company and reviews with Management and the external auditors the annual consolidated financial statements of the Company prior to submission to the Board of Directors for final approval. The Audit Committee also meets during the year with Management and the external auditors to discuss internal control issues, auditing matters, and financial reporting issues. External auditors have free access to the Audit Committee without obtaining prior Management approval.

The Shareholders have appointed Ernst and Young LLP as the external auditors of the Company and, in that capacity, they have examined the consolidated financial statements for the years ended December 31, 2002 and 2001. The Auditor's report to the Shareholders' is presented herein.

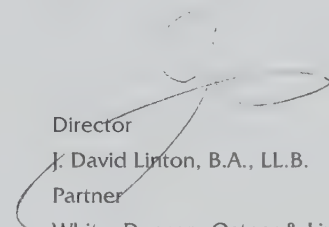


Director

Savvas Chamberlain, M.Sc., Ph.D., FIEEE

Chairman and Chief Executive Officer

DALSA Corporation



Director

J. David Linton, B.A., LL.B.

Partner

White, Duncan, Ostner & Linton

## AUDITORS' REPORT

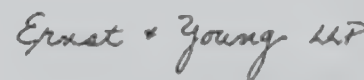
### TO THE SHAREHOLDERS OF DALSA CORPORATION

We have audited the consolidated balance sheets of **DALSA Corporation** as at December 31, 2002 and 2001 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Kitchener, Canada,  
January 17, 2003.



Chartered Accountants



## CONSOLIDATED BALANCE SHEETS

### DALSA Corporation (Incorporated under the laws of Ontario)

As at December 31, (Canadian dollars in thousands)

	2002	2001
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 4,267	\$ 9,256
Accounts receivable	19,168	8,857
Accrued revenue	1,753	1,849
Inventory	24,494	13,719
Other current assets	3,381	1,245
<b>Total current assets</b>	<b>53,063</b>	34,926
Long-term investment (note 8)	855	714
Deferred development costs (note 13)	1,296	—
Intangible assets (note 11)	7,409	—
Property and equipment (note 11)	51,941	9,710
Future tax asset (note 12)	2,248	1,997
<b>Total Assets</b>	<b>\$ 116,812</b>	<b>\$ 47,347</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 21,768	\$ 9,431
Income taxes payable	3,012	3,040
Deferred revenue	384	431
Long-term debt due within one year	473	956
<b>Total current liabilities</b>	<b>25,637</b>	13,858
Long-term debt (note 9)	1,556	1,571
<b>Shareholders' equity</b>		
Share capital (note 11)	73,120	26,921
Retained earnings	16,499	4,997
<b>Total shareholders' equity</b>	<b>89,619</b>	31,918
<b>Total liabilities and shareholders' equity</b>	<b>\$ 116,812</b>	<b>\$ 47,347</b>



# CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

## DALSA Corporation

Year ended December 31, (Canadian dollars in thousands)

	2002	2001
<b>REVENUE</b>		
Standard product sales	\$ 100,722	\$ 47,200
Application specific contracts	11,845	9,235
<b>Total revenue</b>	<b>112,567</b>	56,435
<b>EXPENSES</b>		
Cost of standard product sales	56,124	23,585
Research and development, net (note 13)	17,530	12,126
Selling, general and administrative	20,618	13,950
Amortization of intangibles (note 4)	462	611
Foreign exchange	(216)	(513)
	<b>94,518</b>	49,759
Income before undernoted	18,049	6,676
Interest expense (income), net (note 9)	515	(35)
Income before provision for income taxes and minority interest	17,534	6,711
Provision for income taxes (note 10)	5,625	2,725
Income before minority interest	11,909	3,986
Minority interest (note 4)	407	—
<b>Net income</b>	<b>11,502</b>	3,986
Retained earnings, beginning of year	4,997	1,011
<b>Retained earnings, end of year</b>	<b>\$ 16,499</b>	\$ 4,997
<b>Earnings per share</b> (note 3)		
Basic	\$ 0.82	\$ 0.33
Fully diluted	\$ 0.80	\$ 0.33
Weighted average number of shares outstanding (in thousands)	13,944	12,056

See accompanying notes



# CONSOLIDATED STATEMENTS OF CASH FLOWS

## DALSA Corporation

Year ended December 31, (Canadian dollars in thousands)

	2002	2001
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 11,502	\$ 3,986
Add (deduct) non-cash items:		
Depreciation	5,984	2,566
Amortization of intangibles	462	611
Future income taxes	517	(616)
Minority interest	407	—
Changes in operating assets and liabilities	(3,837)	2,793
<b>Cash provided by operating activities</b>	<b>15,035</b>	<b>9,340</b>
<b>INVESTING ACTIVITIES</b>		
Acquisitions	(39,035)	(611)
Deferred development costs	(1,296)	—
(Increase) in long-term investment	(141)	(303)
Property and equipment additions	(24,454)	(2,865)
<b>Cash (applied to) investing activities</b>	<b>(64,926)</b>	<b>(3,779)</b>
<b>FINANCING ACTIVITIES</b>		
(Decrease) in bank indebtedness	—	(5,323)
Issuance of share capital	47,805	230
Share issuance costs	(2,374)	—
(Decrease) increase in long-term debt	(505)	223
(Increase) in employee share loans	(24)	(38)
<b>Cash provided by (applied to) financing activities</b>	<b>44,902</b>	<b>(4,908)</b>
<b>Net cash (applied) provided during year</b>	<b>(4,989)</b>	<b>653</b>
Cash and cash equivalents, beginning of year	9,256	8,603
<b>Cash and cash equivalents, end of year</b>	<b>\$ 4,267</b>	<b>\$ 9,256</b>



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the significant accounting policies followed in the preparation of these financial statements.

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of DALSA Corporation and its wholly-owned subsidiaries, hereinafter referred to as the "Company" or "Corporation". Investments in which the Company has a significant influence are accounted for by the equity method.

### INVENTORY

Inventory is valued at the lower of standard costs, which approximate actual costs, or market [replacement cost for raw materials and work-in-process and net realizable value for finished goods].

### GOODWILL AND OTHER INTANGIBLE ASSETS

Effective January 1, 2002, the Company adopted the new Canadian Institute of Chartered Accountants section 3062, Goodwill and Intangible Assets. The Company is required to identify and measure intangible assets as acquired in any business acquisition, and to separately identify these assets from goodwill.

Goodwill and intangible assets with indefinite useful lives are evaluated on an ongoing basis to determine whether the value of these assets has been impaired.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. Management assesses the impairment of intangible assets by determining whether the unamortized balance can be recovered through undiscounted future cash flows derived from these assets over their remaining useful lives. Any permanent impairment is written off against earnings in the year that such impairment becomes evident.

### PROPERTY, EQUIPMENT AND DEPRECIATION

Property and equipment are recorded at cost less related government grants and investment tax credits. Depreciation is computed on a straight-line basis as follows:

Buildings	20 to 40 years
Equipment	2 to 10 years
Furniture and fixtures	5 to 7 years
Computer software	2 to 8 years

Capital assets that are currently not in use or that are under development will not be amortized until such capital assets are put in use.

### RESEARCH AND DEVELOPMENT EXPENDITURES

Research and development costs are charged to earnings in the periods in which they are incurred, except for costs incurred pursuant to specific contracts with third parties, which are charged to earnings in the same period as the related revenue is recognized. Related investment tax credits reduce research and development expense in the same period in which the related expenditures are charged to earnings, provided there is reasonable assurance the benefits will be realized. Development costs meeting generally accepted accounting principles for deferral are deferred and amortized over their useful lives.



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### INCOME TAXES

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

### REVENUE RECOGNITION

Revenue from product sales is recognized at the time goods are shipped to customers. Revenue from long-term application specific contracts, which relate to research and development contracts, is recognized on a percentage completion basis. Under this method, revenue is recognized over the duration of the contract based on costs incurred. The difference between billings and revenue recognized is recorded as deferred or accrued revenue. For contracts where a portion of the payment is based on performance relative to established targets, provision for performance adjustments is included in revenue or cost estimates when amounts can reasonably be determined.

### FOREIGN CURRENCY TRANSLATION

Effective January 1, 2002, the Company adopted Canadian Institute of Chartered Accountants section 1650, Foreign Currency Translation. As a result of adopting this section, gains or losses on exposures related to long-term monetary items will be reflected in net income for the period. The effect of adopting this accounting policy was not significant and accordingly no retroactive adjustment has been reflected in the financial statements.

Foreign currency denominated revenues and expenses are translated at weighted average exchange rates throughout the year. Foreign currency denominated monetary assets and liabilities are translated at rates prevailing at the balance sheet dates. Foreign exchange gains and losses on transactions during the year are reflected in income, except for gains and losses on foreign exchange forward contracts used to hedge specific commitments in foreign currencies. Gains or losses on these contracts are accounted for as a component of the related hedged transaction.

For integrated operations, monetary assets and liabilities are translated at the rates prevailing on the balance sheet date and non-monetary assets and liabilities are translated at historic rates. Revenue and expenses are translated at the weighted average rates throughout the year [other than depreciation and amortization which are translated at the same rates as the related assets]. Translation gains and losses are included in income. The Company considers all of its foreign subsidiaries to be integrated operations.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as cash and highly liquid short-term investments.

### STOCK-BASED COMPENSATION PLANS

Effective January 1, 2002, the Company has adopted CICA Handbook section 3870, Stock-Based Compensation and Other Stock-Based Payments. The Company has adopted this policy prospectively for new awards granted on or after January 1, 2002.

The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, that call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments.



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### STOCK-BASED COMPENSATION PLANS (CONT'D)

The new standard permits the Company to continue its existing policy of recording consideration paid by employees or directors on the exercise of stock options or purchase of stock as a credit to share capital. The Company has chosen to recognize no compensation cost when stock options with no cash settlement features are granted to employees and directors under its stock option plan. Pro forma information showing the effect of applying the fair value method to all stock-based compensation is disclosed in note 12.

Direct awards of stock to employees and stock and option awards granted to non-employees are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of direct awards of stock are determined using the quoted market price of the Company's stock and the fair value of options are determined using the Black-Scholes option pricing model.

In periods prior to January 1, 2002, the Company recognized no compensation cost when stock or stock options were issued to employees. Any consideration paid by employees on the exercise of stock options or purchase of stock was credited to share capital.

### PENSION PLANS

The Company sponsors a defined contribution pension plan and a multi-employer defined benefit pension plan for certain of its employees. Defined contribution plan accounting is applied to the multi-employer defined benefit pension plan. The cost of defined contribution pensions is expensed as earned by employees.

### EARNINGS PER SHARE

Earnings per share is based on the weighted average number of shares outstanding during the year. The treasury stock method is used to calculate diluted earnings per share. Under the treasury stock method, it is assumed that potential proceeds from the exercise of stock options and warrants would be used to purchase the Company's common shares at the average market price during the period, thereby reducing the number of shares otherwise used to calculate diluted earnings per share.

### USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the period. Actual results could differ from those estimates.

## 2. CASH FLOWS

Cash paid during the year for interest and income taxes was as follows:

Canadian dollars in thousands	Interest	Income taxes
December 31, 2002	\$ 599	\$ 1,246
December 31, 2001	98	1,195



### 3. EARNINGS PER SHARE

Diluted earnings per share computation

Number in thousands

	2002	2001
Weighted average number of shares outstanding	13,944	12,056
Incremental shares from assumed conversion of employee stock options	423	14
<b>Adjusted weighted average shares</b>	<b>14,367</b>	<b>12,070</b>

### 4. ACQUISITIONS

#### [A] DALSA SEMICONDUCTOR INC.

On February 22, 2002, the Company, through its new subsidiary DALSA Semiconductor Inc., acquired a controlling interest in the semiconductor wafer foundry business of Zarlink Semiconductor Inc. ["Zarlink"], located in Bromont, Quebec. As consideration, the Company paid \$21,543,000 in cash. Zarlink also received common shares in DALSA Semiconductor Inc. equivalent to a 19.9% interest.

The total original purchase price, including costs of acquisition, was \$22,411,000. The purchase price is allocated as follows:

Canadian dollars in thousands

#### ASSETS ACQUIRED

Inventory	\$ 4,916
Property and equipment	21,859
Intangible assets consisting of patents and manufacturing processes	1,009
	<b>27,784</b>
Minority interest retained by Zarlink	5,373
	<b>\$ 22,411</b>

On June 13, 2002, the Company invested an additional \$10,000,000 in treasury shares of DALSA Semiconductor Inc. Zarlink did not participate in this investment and, as a result, the Company's ownership in DALSA Semiconductor Inc. was increased from 80.1% to 85%. There were no additional goodwill, intangible assets, or fair market value increments created as a result of this transaction.

On October 3, 2002, the Company purchased the remaining 14.5% equity ownership of DALSA Semiconductor Inc. from Zarlink. As consideration, the Company paid \$6,500,000 in cash to Zarlink and incurred acquisition costs in the amount of \$48,000.



#### 4. ACQUISITIONS (CONT'D)

##### [A] DALSA SEMICONDUCTOR INC. (CONT'D)

The total purchase price as at December 31, 2002, including costs of acquisition, was \$28,959,000. The purchase price is summarized as follows:

Canadian dollars in thousands

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##### ASSETS ACQUIRED

Inventory	\$	4,916
Property and equipment		21,859
Intangible assets consisting of patents and manufacturing processes		1,777
		<u>28,552</u>
Minority interest earned to October 3, 2002		407
	\$	<u>28,959</u>

##### [B] DALSA PROFESSIONAL IMAGING

The Company established a new subsidiary, DALSA BV, ["DALSA Professional Imaging"] in the Netherlands. On March 29, 2002, DALSA Professional Imaging acquired the CCD Image Sensors business of Royal Philips Electronics for cash consideration of \$9,654,000. The total purchase price, including costs of acquisition of \$422,000 was \$10,076,000. The purchase price is allocated as follows:

Canadian dollars in thousands

---

##### ASSETS ACQUIRED

Inventory	\$	2,078
Property and equipment		1,903
Intangible assets consisting of patents, trademarks, licenses and know-how		6,095
	\$	<u>10,076</u>

##### [C] AMORTIZATION OF INTANGIBLE ASSETS

In 2002, the Company acquired certain intangible assets as disclosed above, all of which have a finite useful life. The estimated useful life has been determined to be 12 years. Accumulated amortization of intangibles arising from the above acquisitions was \$462,000 as at December 31, 2002.

## 5. FINANCIAL INSTRUMENTS

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The Company hedges a portion of its exposure to fluctuations in foreign currencies, resulting from future export sales receipts in United States dollars, through the use of forward exchange contracts. At December 31, 2002, the Company has outstanding forward contracts with a notional value of US\$6,400,000 [US\$5,600,000 - 2001] maturing on or before August 30, 2003 at an average exchange rate of \$1.5900 [\$1.5789 - 2001] and a fair value at December 31, 2002 of \$10,097,000 [\$8,919,000 - 2001]. The Company limits counterparties to these contracts to Canadian Schedule A Chartered Banks.

## 5. FINANCIAL INSTRUMENTS (CONT'D)

The Company invests in a variety of instruments such as certificates of deposit, bankers acceptances and commercial paper. The Company, by policy, limits investments to high quality rated credit, limits the amount of credit exposure to any one financial institution or commercial issuer and limits the term to maturity to less than one year.

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair market value because of the short maturity of these instruments. The Company believes that the carrying value of long-term debt approximates fair market value.

The Company sells its products to a diverse range of customers operating throughout the world. Credit limits, ongoing credit evaluation and account monitoring procedures are utilized to minimize risk of loss. The write-off of non-collectable amounts has been insignificant.

The Company has a long-term investment in preferred shares and a convertible debenture [see note 8].

## 6. INVENTORY

Canadian dollars in thousands	2002	2001
Raw materials and supplies	\$ 11,728	\$ 9,604
Work-in-process	7,545	710
Finished goods	5,221	3,405
	<b>\$ 24,494</b>	<b>\$ 13,719</b>

## 7. PROPERTY AND EQUIPMENT

2002 (Canadian dollars in thousands)	Cost	Accumulated depreciation	Net book value
Buildings	\$ 13,054	\$ 2,020	\$ 11,034
Computer software	4,516	2,191	2,325
Equipment	51,675	14,759	36,916
Furniture and fixtures	760	558	202
	<b>70,005</b>	<b>19,528</b>	<b>50,477</b>
Land	1,464	—	1,464
	<b>\$ 71,469</b>	<b>\$ 19,528</b>	<b>\$ 51,941</b>



## 7. PROPERTY AND EQUIPMENT (CONT'D)

<b>2001</b> (Canadian dollars in thousands)	Cost	Accumulated depreciation	Net book value
Buildings	\$ 5,235	\$ 1,505	\$ 3,730
Computer software	2,908	1,617	1,291
Equipment	14,670	10,387	4,283
Furniture and fixtures	707	506	201
	23,520	14,015	9,505
Land	205	—	205
	<b>\$ 23,725</b>	<b>\$ 14,015</b>	<b>\$ 9,710</b>

As at December 31, 2002, the Company was in the process of installing equipment, which had a cost of \$15,160,000, at its Semiconductor facility. No depreciation was recorded for this equipment, as it was not yet in use.

## 8. LONG-TERM INVESTMENT

Canadian dollars in thousands	2002	2001
<b>RAD-ICON IMAGING CORP.</b>		
Investment in 500,000 preferred shares [2001 - 500,000]	\$ 130	\$ 176
Convertible debenture	725	538
	<b>\$ 855</b>	<b>\$ 714</b>

The Company has an equity investment in Rad-icon Imaging Corp. ["Rad-icon"] equal to 38.5%, based on voting rights, and has entered into an operating agreement, shareholders' agreement and loan agreement. The investment is in the form of preferred shares and a convertible debenture with Rad-icon. The convertible debenture bears interest at 5% payable at maturity, is secured by all of the assets of Rad-icon, excluding accounts receivable, and provides that the Company will advance up to US\$1,000,000 to Rad-icon during the period ending June 30, 2003. As at December 31, 2002, the Company has advanced an amount of \$725,000, including accrued interest. Under the terms of the shareholders' agreement, the Company has the option to convert the outstanding loan plus accrued interest at June 30, 2003 into voting preferred shares based on a predefined formula or to purchase all of the outstanding shares of Rad-icon at a price based on its revenues and profits in the year ending June 30, 2003. Rad-icon is engaged in the development of CMOS imagers for use in medical and non-destructive x-ray imaging. Since the Company exercises significant influence over Rad-icon, the investment is accounted for by the equity method.

## **9. BANK CREDIT FACILITIES AND LONG-TERM DEBT**

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The Company has borrowing facilities with its bank. A committed, revolving credit facility of \$20,000,000 is available to fund operations subject to certain margin restrictions. In addition, a committed, revolving facility in amount of \$6,000,000 is available to finance capital expenditures. Further, the Company has a treasury risk management facility of \$3,500,000 to facilitate hedging of interest and currency related risks arising in the normal course of operations.

The Company also has a bridge financing facility with its bank. An amount of US\$15,000,000 is available under this facility, subject to review by the bank. Once advanced, the principal portion will become payable in 19 quarterly installments of 1/28 of the principal amount, followed by a final quarterly installment equal to the remaining balance of the advance.

The rate of interest on all credit facilities varies from prime to prime plus 0.875% and is determined based on the Company's ratio of loan advances to its earnings before interest, taxes, depreciation and amortization ["EBITDA"]. The credit facilities are subject to certain financial covenants.

The Company has provided a floating charge on all assets as collateral for its credit facilities.

No amounts were outstanding under the credit facilities as at the current year-end [2001 - nil].

Long-term debt at December 31, 2002 is comprised of an interest-free loan to the Company in the amount of US\$1,237,000 [\$1,537,000 -2001] related to an acquisition in a prior year. This amount is to be paid annually over five years, commencing in 2001, in equal amounts of US\$300,000 for the first four years and US\$336,000 in the final year. The Company has issued unconditional letters of credit for the loan in the amount of US\$450,000 and conditional letters of credit in the amount of US\$787,000.

Interest expense on bank loans that were received and repaid during the year was \$599,000 for the year ended December 31, 2002 and \$47,000 for the year ended December 31, 2001.

## **10. INCOME TAXES**

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Investment tax credits are accrued when qualifying expenditures are made and there is reasonable assurance that the credits will be realized. Investment tax credits earned with respect to current expenditures for qualified research and development activities are included in the statement of operations as a reduction of expenses. Investment tax credits are subject to review by Canada Customs and Revenue Agency for the years 1998 to 2002.



## 10. INCOME TAXES (CONT'D)

The provision for income tax expense differs from the expense that would be obtained by applying Canadian statutory rates as a result of the following:

Canadian dollars in thousands	2002	2001
Basic rate applied to income before income taxes and minority interest	\$ 6,771	\$ 2,870
Increase (decrease) in income taxes resulting from:		
Manufacturing and processing tax credit	(825)	(776)
Provincial tax rate differential	(397)	(107)
Expenses not deductible for tax purposes	45	24
Foreign tax differential	(38)	152
Other	69	562
<b>Provision for income taxes</b>	<b>\$ 5,625</b>	<b>\$ 2,725</b>

For financial reporting purposes, income before income taxes and minority interest includes the following components:

Canadian dollars in thousands	2002	2001
<b>PRE-TAX EARNINGS:</b>		
Canada	\$ 16,704	\$ 9,722
Foreign	830	(3,011)
	<b>\$ 17,534</b>	<b>\$ 6,711</b>

Significant components of the provision for income taxes are as follows:

Canadian dollars in thousands	2002	2001
Current tax expense	\$ 5,086	\$ 3,341
Tax depreciation in excess of accounting depreciation	373	(167)
Non-deductible accounting reserves	(463)	(289)
Tax loss carryforwards	(397)	(408)
Deferred development cost	412	—
Corporate financing fee	171	162
Research and development expenses deducted for tax purposes in excess of accounting	443	86
<b>Provision for income taxes</b>	<b>\$ 5,625</b>	<b>\$ 2,725</b>

## 10. INCOME TAXES (CONT'D)

Future income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's future tax assets and liabilities as of December 31 are:

Canadian dollars in thousands	2002	2001
<b>FUTURE TAX ASSET</b>		
Tax depreciation in excess of accounting depreciation	\$ (444)	\$ (71)
Non-deductible accounting reserves	1,800	1,337
Deferred development costs	(412)	—
Corporate financing fees	702	83
Tax loss carryforwards	805	408
Research and development expenses deducted for tax purposes less than accounting	(203)	240
	<b>\$ 2,248</b>	<b>\$ 1,997</b>

## 11. SHARE CAPITAL

### AUTHORIZED

Unlimited common shares

Unlimited preferred shares, issuable in a series

Preferred shares are non-voting, and may be used in series with rights, privileges, restrictions and conditions thereon fixed by the Board of Directors of the Company at the time of issuance.

On October 16, 2000, the Company issued 1,000,000 Special Warrants at a price of \$8.00 per Special Warrant. Each Special Warrant entitled the holder to receive one unit [a "Unit"] consisting of one common share and one-half of one Purchase Warrant. Each Purchase Warrant entitled the holder to purchase one common share at a price of \$8.75. On November 6, 2000, the Board of Directors of the Company approved the filing with the Ontario Securities Commission ["OSC"] of a preliminary prospectus, qualifying the distribution of Units consisting of 1,000,000 common shares and 500,000 Purchase Warrants. On December 21, 2000, the Company received its receipt for the final prospectus from the OSC and the Special Warrants were converted to common shares and Purchase Warrants on January 2, 2001. The prospectus also qualified the distribution of 50,000 compensation options issuable upon exercise of a non-assignable special broker's warrant granted to the agent in connection with the private placement of Special Warrants on October 16, 2000 as outlined above. These compensation options provided for the issuance of one common share and one half Purchase Warrant for the payment of \$8.00 per compensation option.



## 11. SHARE CAPITAL (CONT'D)

In October and December of 2002, the 50,000 compensation options and the 500,000 Purchase Warrants were converted to 575,000 common shares for proceeds of \$4,993,500.

On February 4, 2002, the Company issued 2,300,000 Special Warrants by way of private placement for proceeds of \$23,000,000 less underwriters' commission of \$1,150,000 and offering expenses of \$310,000. The recorded amount of \$22,037,000 is net of a future tax asset of \$497,000. Each Special Warrant, upon exercise, entitled the holder to receive one common share of the Company, without further payment. The Special Warrants were converted to common shares on May 2, 2002. The proceeds of the Special Warrant offering were used in connection with the acquisition of the Semiconductor Wafer Foundry Business of Zarlink Semiconductor Inc. as disclosed in note 4.

On November 8, 2002, the Company issued 1,150,000 common shares at a price of \$16.00 per common share in a bought deal transaction. On November 8, 2002, the Company received its receipt for the final prospectus from the OSC and the common shares were released from escrow. At December 31, 2002, the common shares were recorded at gross proceeds of \$18,400,000 less underwriting and issue expenses of \$914,000 net of a future tax asset in the amount of \$271,000.

	COMMON SHARES		SPECIAL WARRANTS	
	Number	Amount in thousands	Number	Amount in thousands
BALANCE, DECEMBER 31, 2000	11,027,025	\$ 19,086	1,000,000	\$ 7,605
Issued under previous employee stock option plan	3,028	6		
Issued under employee stock purchase plan	26,912	164		
Issued to directors as consideration for directors' fees	7,284	60		
Issued pursuant to conversion of special warrants	1,000,000	7,605	(1,000,000)	(7,605)
BALANCE, DECEMBER 31, 2001	12,064,249	26,921	—	—
Issued under previous employee stock option plan	145,142	1,016		
Issued under employee stock purchase plan	32,560	298		
Issued to directors as consideration for directors' fees	14,317	97		
Issued pursuant to conversion of special warrants	2,875,000	27,031		
Issued under bought deal	1,150,000	17,757		
BALANCE, DECEMBER 31, 2002	16,281,268	\$ 73,120	—	—

## 12. STOCK-BASED COMPENSATION PLANS

### STOCK OPTION PLAN

During 1996, the Company instituted an Employee Stock Option Plan ["Option Plan"]. At that time, the Company reserved 1,000,000 shares for issuance, pursuant to options granted under the Option Plan. On March 23, 2001, the shareholders of the Company approved an increase in the number of options available by 444,183 share options, making available for issue a total of 1,444,183 share options of which 184,914 have been exercised to date. Options may be granted at the discretion of the Board of Directors at an option price not less than the market value of the Company's common shares on the date of grant. The options vest over a period of three to five years and expire no later than the tenth anniversary of the date of grant. The purchase price of common shares under options outstanding at December 31, 2002, ranges from \$6.00 to \$10.53. At December 31, 2002, 326,789 of these options were exercisable. The weighted average remaining contractual life of those options is 2.43 years. The weighted average exercise price of options granted in the year ended December 31, 2002 and total outstanding options at December 31, 2002 was \$10.07 and \$7.90, respectively.

Employee Stock Option Plan	Number of shares	Weighted average exercise price
BALANCE, DECEMBER 31, 2000	<b>707,300</b>	<b>\$ 7.10</b>
Granted	<b>267,750</b>	<b>6.80</b>
Exercised	<b>(750)</b>	<b>6.00</b>
Cancelled	<b>(95,700)</b>	<b>6.62</b>
BALANCE, DECEMBER 31, 2001	<b>878,600</b>	<b>7.07</b>
Granted	<b>267,250</b>	<b>10.07</b>
Exercised	<b>(145,142)</b>	<b>7.05</b>
Cancelled	<b>(32,300)</b>	<b>7.34</b>
<b>BALANCE, DECEMBER 31, 2002</b>	<b>968,408</b>	<b>\$ 7.90</b>

The following table summarizes information regarding stock options outstanding at December 31, 2002:

Average exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
<b>\$ 6.00 - 6.99</b>	<b>373,838</b>	<b>3.52</b>	<b>\$ 6.50</b>	<b>135,551</b>	<b>\$ 6.29</b>
<b>7.00 - 7.99</b>	<b>203,602</b>	<b>2.73</b>	<b>7.45</b>	<b>86,020</b>	<b>7.48</b>
<b>8.00 - 8.99</b>	<b>118,218</b>	<b>1.60</b>	<b>8.07</b>	<b>103,218</b>	<b>8.04</b>
<b>9.00 - 9.99</b>	<b>181,700</b>	<b>5.45</b>	<b>9.85</b>	<b>—</b>	<b>—</b>
<b>10.00 - 10.99</b>	<b>91,050</b>	<b>5.13</b>	<b>10.51</b>	<b>2,000</b>	<b>10.41</b>
	<b>968,408</b>	<b>3.63</b>	<b>\$ 7.90</b>	<b>326,789</b>	<b>\$ 7.18</b>



## 12. STOCK-BASED COMPENSATION PLANS (CONT'D)

### PRO FORMA INFORMATION

Pro forma information regarding net income is required and has been determined as if the Company had accounted for its employee stock options granted after December 31, 2001 under the fair value method. The fair value for these options was estimated at the date of granting using a Black-Scholes Option Pricing Model with the following assumptions for 2002: risk-free interest rate of 4.67%; dividend yields of 0%; a volatility of 0.428; and a weighted-average expected life of the options of 4.5 years. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's pro forma net income under Canadian generally accepted accounting principles would be reduced by \$173,000 for the twelve months ended December 31, 2002. Basic and diluted earnings per share figures would have been reduced by \$0.01 for the year ended December 31, 2002.

The weighted average fair value of stock options granted during the year ended December 31, 2002 was \$4.21 per option.

### STOCK PURCHASE PLAN

The Company has an Employee Stock Purchase Plan ["Purchase Plan"] pursuant to which employees and directors of the Company may be offered the opportunity to apply to the Company for a loan to purchase common shares of the Company. Under the Purchase Plan, the Company may issue the shares to employees who are not directors or principal shareholders, at a discount of up to 10% of the market value. Directors and principal shareholders may purchase shares at fair market value under the Purchase Plan. The Company has reserved 1,000,000 shares for issuance pursuant to the Purchase Plan. Loans bear interest at rates determined by the Company, are repayable monthly over a period no longer than ten years, are limited to one times annual salary or three times annual directors fees and are secured by the purchased shares. In practice, loans extended under the Purchase Plan do not exceed one year. To December 31, 2002, 141,824 shares have been issued under the Purchase Plan. Loans outstanding under the Purchase Plan at December 31, 2002, total \$76,000 [\$52,000 at December 31, 2001], are interest free, are repayable at dates on or before April 2003 and are included in accounts receivable. The loans are secured by Company common shares with a market value of \$415,000 at December 31, 2002.

## 13. RESEARCH AND DEVELOPMENT

Research and development costs are presented net of related government funding and investment tax credits as follows:

Canadian dollars in thousands	2002	2001
Total research and development expenditures	\$ 20,686	\$ 13,625
Government funding	(95)	(56)
Investment tax credits	(3,061)	(1,443)
<b>Net research and development expenditures</b>	<b>\$ 17,530</b>	<b>\$ 12,126</b>

### 13. RESEARCH AND DEVELOPMENT (CONT'D)

The Company is eligible for investment tax credits at a rate of 20% of qualifying scientific research and experimental development expenditures conducted in Canada. The Company is also eligible for certain tax credits for research carried out by its subsidiaries in the United States and the Netherlands.

The Company has been approved for funding under the Technology Partnerships Canada initiative of Industry Canada. The funding is to support the Company's research and development efforts in digital cinema products. The Company will receive contributions of 30% of the specified costs of the development project, to a maximum amount of \$1,738,000. The Company has agreed to pay royalties to a cumulative future value of \$4,947,000 at a rate of 1% of future gross digital cinema revenues. The royalty period begins January 1, 2002 and ends December 31, 2012, or when the royalty maximum has been reached, whichever occurs first. As at December 31, 2002, the Company has claimed \$699,000, of which \$607,000 has been applied against deferred development costs, and \$92,000 has been applied against project related fixed assets. No royalties were payable in 2002.

The development costs of the digital cinema project meet the criteria for deferral under generally accepted accounting principles. The Company has deferred development costs relating to the digital cinema project as follows:

Canadian dollars in thousands	2002
Total research and development expenditures	\$ 1,903
Less funding from Technology Partnerships Canada	(607)
Deferred development costs	\$ 1,296

The deferred development costs will be amortized against the future revenues of the digital cinema products, and are assessed on an ongoing basis for recoverability from anticipated future revenues.

### 14. SEGMENTED INFORMATION

The Company operates in two reportable segments: Digital Imaging Products and Solutions and Semiconductor Products and Services. These reportable segments are strategic business units with different products, different processes and different marketing strategies. The Digital Imaging Products and Solutions segment designs, develops and manufactures imaging products and solutions for a wide customer base. The Semiconductor Products and Services segment manufactures semiconductor wafers and components for the electronics industry. The Company accounts for inter-segment sales at current market rates.



#### 14. SEGMENTED INFORMATION (CONT'D)

For the year ended December 31, 2002 Canadian dollars in thousands	Digital Imaging Products and Solutions	Semiconductor Products and Services	Consolidated
Total revenue	\$ 77,746	\$ 36,013	\$ 113,759
Inter-segment sales	—	1,192	1,192
Total revenue	77,746	34,821	112,567
Interest expense - net	494	21	515
Income tax expense	4,259	1,366	5,625
Net income			
Before minority interest	9,172	2,737	11,909
Minority interest	—	407	407
After minority interest	9,172	2,330	11,502
Identifiable assets	70,278	46,534	116,812
Property and equipment acquired during the year	4,365	20,089	24,454
Depreciation of property and equipment	2,927	3,057	5,984
Amortization of intangible assets	392	70	462

During the year ended December 31, 2001, the Company operated in one reportable segment, Digital Imaging Products and Solutions.

For the year ended December 31, 2001

Canadian dollars in thousands

Total revenue	\$ 56,435
Interest (income) - net	(35)
Income tax expense	2,725
Net income	3,986
Identifiable assets	47,347
Property and equipment acquired during the year	2,865
Depreciation of property and equipment	2,566
Amortization of intangible assets	611

#### 14. SEGMENTED INFORMATION (CONT'D)

Revenues are attributed to countries based on the location of the customer and are distributed as follows:

Canadian dollars in thousands	2002	2001
Canada	\$ 14,684	\$ 1,488
USA	68,741	36,618
Europe, Middle East	22,566	10,775
Asia-Pacific	6,576	7,554
<b>Total revenue</b>	<b>\$ 112,567</b>	<b>\$ 56,435</b>

The geographic distribution of identifiable assets is detailed below.

Canadian dollars in thousands	2002	2001
Canada	\$ 90,474	\$ 31,906
USA	15,577	15,441
Europe	10,347	—
Asia Pacific	414	—
<b>Identifiable assets</b>	<b>\$ 116,812</b>	<b>\$ 47,347</b>

#### 15. PENSION OBLIGATIONS

The Company sponsors defined contribution pension plans for most of its employees. In the course of the year, the Company acquired additional employees in its Semiconductor fabrication facility in Quebec and its Professional Imaging subsidiary in the Netherlands. The employees in the Semiconductor facility are members of a defined contribution pension plan. Professional Imaging sponsors a multi-employer defined benefit pension plan for its employees in the Netherlands. Defined contribution plan accounting is applied to the multi-employer defined benefit pension plan. The cost of defined contribution pensions is expensed as earned by employees. The total expense with respect to the defined contribution plan and the multi-employer defined benefit pension plan for the year ended December 31, 2002 was \$586,000 [2001 - \$226,000] and \$246,000 [2001 - nil] respectively.



## **16. COMMITMENTS AND CONTINGENCIES**

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### **OPERATING LEASES**

The Company has entered into operating leases for office equipment, vehicles and premises. Minimum annual payments under these leases for years after December 31, 2002 and in total are as follows:

Canadian dollars in thousands

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2003	\$	1,770
2004		1,576
2005		755
2006		74
2007		74
	\$	<u>4,249</u>

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Rental expense for office equipment, vehicles and premises was \$1,845,000 in fiscal 2002 [2001 - \$430,000].

## **17. COMPARATIVE FIGURES**

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Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current year.

## SHAREHOLDER INFORMATION

### ANNUAL MEETING OF SHAREHOLDERS

Wednesday, March 26, 2003

### TOURS: 1:30 - 3:30pm

Tours of the DALSA laboratories and facilities will be held for shareholders and friends of the Company. There will be an opportunity to see the laboratories and to talk with members of the DALSA management team. Visitors are welcome.

### MEETING: 4:00pm (EST)

The Annual Meeting of Shareholders will be held at the offices of DALSA Corporation, 605 McMurray Road, Waterloo, Ontario.

### MANAGEMENT PRESENTATION

Immediately following the Annual Meeting of Shareholders there will be a management presentation with time for questions, answers, and discussion. Further, there will be an opportunity for shareholders and visitors to meet the rest of the executive management. We expect to finish by 6:00pm.

### DALSA CORPORATE HEADQUARTERS

605 McMurray Road, Waterloo, Ontario, Canada N2V 2E9  
Tel: (519) 886-6188 • Fax: (519) 886-0185  
Website: [www.dalsa.com](http://www.dalsa.com)

### REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada, Toronto, Ontario

### SHAREHOLDER CONTACT

For change of address, shareholders are requested to write to Computershare Trust Company of Canada at:  
100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1  
Tel: (800) 663-9097 • (416) 981-9633 • Fax: (416) 981-9800

### STOCK LISTING

The Toronto Stock Exchange, Ticker Symbol: DSA

### INVESTOR RELATIONS INFORMATION

For investor information, please contact the Investor Relations Department at DALSA Corporation,  
Tel: (519) 886-6188 • Fax: (519) 886-0185  
Email: [investor@dalsa.com](mailto:investor@dalsa.com)

For Shareholders and others, please send us your email address if you wish to receive regular company information.

### QUARTERLY EARNINGS RELEASE DATES AND ANNUAL MEETING OF SHAREHOLDERS

Fourth Quarter 2002 and Year End	February 6, 2003
Annual Meeting of Shareholders	March 26, 2003
First Quarter, 2003	May 1, 2003
Second Quarter, 2003	July 31, 2003
Third Quarter, 2003	October 30, 2003
Fourth Quarter 2003 and Year End	January 29, 2004
Annual Meeting of Shareholders	March 25, 2004

### AUDITORS

Ernst & Young LLP, Kitchener, Ontario

### BANKERS

Bank of Montreal, Kitchener, Ontario

### DIRECTORS

Savvas Chamberlain, M.Sc., Ph.D., FIEEE  
Chairman and Chief Executive Officer, DALSA Corporation

Marjorie Carroll R.N., DPHN, LL.D.  
Health Professional Consultant

Graham A. Jullien, B.Tech, M.Sc., Ph.D., P.Eng.  
iCORE Chair, Dept. of Electrical and Computer Engineering  
University of Calgary

J. David Linton, B.A., LL.B.  
Partner White, Duncan, Ostner & Linton

Ian McPhee, B.Math, M.Math  
Management Consultant

John H. Simons, B.Eng., M.Eng., MBA, P.Eng.  
Management Consultant

Gene P. Weckler, BSEE, MSEE, D.Engr.  
President, Rad-icon Imaging Corp.



## **OFFICERS**

Savvas Chamberlain, M.Sc., Ph.D., FIEEE

Chairman and Chief Executive Officer

Brian C. Doody, B.Sc., M.A.Sc., P.Eng.

President, DALSA Digital Imaging

Ralf M. Brooks, B.A.Sc., M.Sc., P.Eng.

President, DALSA Semiconductor

Robin C. Bentley, P.Eng., B.Eng. & Mgmt

Vice President Sales, Digital Imaging Products and Solutions

Hugh E. Garvey, B.Sc.

Vice President and General Manager, Life Sciences

Martin W. Hynd, B.Sc.

Vice President, Corporate Manufacturing

David J. Litwiller, H.B.A.Sc., P.Eng.

Vice President, Marketing and Business Development

James W. Roberts, B.Sc., M.Math., Ph.D.

Vice President and General Manager, Vision for Machines

Peter M. Voss, B.Sc., B.A., CA

Vice President, Finance

## **DALSA AROUND THE WORLD:**

### **CANADA**

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DALSA Vision for Machines

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DALSA Semiconductor

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## **FOR MORE INFORMATION**

To learn more about DALSA Corporation, visit our site on the World Wide Web at [www.dalsa.com](http://www.dalsa.com)





**DALSA CORPORATION**

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